

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  REVISIONS TO PURCHASED GAS ADJUSTMENT AND RESERVE MARGIN RULES [199 IAC 19.10 AND 19.16]	DOCKET NO. RMU-04-3
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**ORDER COMMENCING RULE MAKING**

(Issued May 21, 2004)

Pursuant to the authority of Iowa Code §§ 17A.4, 476.1, 476.2, 476.4, and 476.6 (2003), the Utilities Board (Board) proposes to amend its purchased gas adjustment (PGA) and reserve margin rules as reflected in the "Notice of Intended Action" attached hereto and incorporated herein by reference. The amendments are being proposed based upon the Board's review of the rules and comments received in Docket No. NOI-03-1, "Review of Purchased Gas Adjustment Rules." In that inquiry, the Board received comments from participants and held a workshop to discuss proposed changes to these rules. This rule making proceeding has been identified as Docket No. RMU-04-3.

The Board opened the inquiry in Docket No. NOI-03-1 to review the current purchased gas adjustment rules since many of the rules had been in effect for many years. The Board received comments concerning all of the elements of the current PGA mechanism and many suggested changes to current rules. The Board has reviewed those suggestions and is proposing amendments to the current PGA rules.

Changes to subrule 19.16 concerning the reserve margin allowed natural gas utilities were also suggested in the inquiry comments and will be included in this rule making proceeding.

MidAmerican Energy Company (MidAmerican), Interstate Power and Light Company (IPL), Atmos Corporation (Atmos), Aquila, Inc., d/b/a Aquila Networks (Aquila), and the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed comments and participated in a workshop held on January 9, 2004. The Board will discuss these comments in connection with the proposed amendments below.

**19.10(476) Purchased gas adjustment (PGA)**

The PGA is the rate mechanism established by the Board to allow natural gas utilities to recover the cost of gas, including gas and gas transportation costs from customers on a timely and accurate basis, rather than at a rate set during a general rate increase case. Natural gas utility's cost of gas is a very large portion of a utility's cost of doing business and thus is a significant portion of a customer's bill. These costs can be quite changeable, for reasons beyond the utility's control. The Board is authorized to establish the PGA rate mechanism pursuant to Iowa Code § 476.6(11) as an automatic rate adjustment. Such automatic rate adjustments are used to reduce a utility's risks associated with variable costs and to reduce the risk that customers will pay too much.

The PGA factor for each utility is established each year and the utilities then file monthly adjustments to reflect changes in the cost of natural gas. The PGA year begins on September 1 with the PGA factor derived in an annual PGA filing on August 1. The annual filing establishes the commodity purchase volumes (factor C), the pipeline demand volumes (factor D), and the storage volumes (factor Z) for the upcoming PGA year, factors D, C, and Z, respectively. These volumes will not change unless there is an event that causes a material change in the volumes set for a factor.

Utilities then file monthly revisions to the PGA factor to reflect changes in commodity prices (factor  $R_c$ ), demand prices ( $R_d$ ), and storage prices ( $R_z$ ). Utilities are also authorized to file an adjustment to account for any differences between the actual cost of gas and the PGA revenues collected. This true-up mechanism is the  $R_b$  factor. Revisions are normally filed monthly, but may be filed more frequently if a significant event occurs.

In October utilities file their annual PGA reconciliation showing the difference between what the utility actually paid for natural gas and what the customers paid the utility over the preceding 12 months. The difference between the actual cost and the revenues received is reflected in the PGA through a calculation called the E factor. The E factor typically becomes effective November 1 and is applied to the November through August monthly PGA filings to recover an undercollection by the utility or to return an overcollection to customers.

In recent years, the price of natural gas has become even more volatile. In response utilities have developed hedging strategies during the winter heating season intended to reduce price volatility. Many of these strategies have costs associated with them, but they also benefit customers by making winter heating bills more predictable. The existing PGA rules may not be well suited to accommodate these new strategies, so the Board is proposing to update the rules as follows:

**19.10(1) Purchased gas adjustment clause.**

This subrule contains the formula for calculating the PGA factor and a description of each of the factors that are used in the formula. The individual factors will be discussed separately below. The Board is proposing to delete those factors that are no longer relevant and to change the definitions of others. The Board has not changed the first paragraph of this subrule except to modify the formula to reflect those factors that have been deleted. The Board proposes to amend the formula as follows:

**19.10(1) Purchased gas adjustment clause.** Purchased gas adjustments shall be computed separately for each customer classification or grouping previously approved by the board. Purchased gas adjustments shall use the same unit of measure as the utility's tariffed rates. Purchased gas adjustments shall be calculated using factors filed in annual or periodic filings according to the following formula:

$$PGA = \frac{(C \times Rc) + (D \times Rd) + \cancel{(N \times Rn)} + (Z \times Rz) + Rb + E}{S} \quad \cancel{-K}$$

**S factor**

The current definition of the S factor is "the anticipated yearly gas commodity sales volume purchased for each customer classification or grouping." The Board does not propose any changes to this definition.

**C/Rc factors**

The current definition of the C factor is "the volume of applicable commodity purchased or transported for each customer classification or grouping required to meet sales, S, plus the expected lost and unaccounted for volumes." The current definition of the Rc factor is "the weighted average of applicable commodity prices or rates to be in effect September 1 corresponding to purchases C." These two factors reflect the commodity costs the utility estimates for each month. The C factor estimates the volumes needed and the Rc factor estimates the average price for the gas.

In the inquiry proceeding, MidAmerican suggested that the Rc factor should be broadened to allow inclusion of all elements associated with the commodity costs and commodity management costs and the listing of items should be representative, and not all-inclusive, in order to permit inclusion of costs of products that may be developed in the future. IPL suggested the definition of the Rc factor should be amended to specifically include the costs of financial hedging tools.

MidAmerican supported IPL's proposal to specifically include financial hedging costs in the Rc factor and suggested that the costs filed in September may be

estimated and the utility should have the flexibility to update the actual costs in subsequent monthly filings. Consumer Advocate raised the issue of whether the costs associated with hedging activities should be recovered as they are incurred, or deferred until the customers use the gas. Consumer Advocate supported the concepts that costs associated with gas supply should be recovered in conjunction with the use of the gas supply and that recovery of hedging costs associated with future gas supply should be done in the same manner as the cost of gas in storage. Under that method, the storage gas is purchased and placed in storage until needed, and the cost is assessed to customers when they use the gas. Consumer Advocate suggested that hedging is just another form of fixed price contract and utilities should be allowed to recover costs associated with gas supply when customers use the gas, rather than when the contract is executed or when usage is projected to occur.

The Board is not proposing to adopt these suggestions. Listing specific items to be included in the C factor would not be beneficial because it could not be a complete list. Retaining the current more open-ended definition will allow more flexibility. The current definition is general enough to include the items suggested by MidAmerican. Further, the Board does not consider changes to the Rc factor to be necessary since the costs of appropriate financial hedging tools can be recovered under the current definition. The Rc factor can be changed monthly under current procedures and the proposed changes would only add language without adding any additional authority.

### **D/Rd factors**

The current definition of the D factor is "the total volume of applicable gas or transportation demand purchases required to meet sales, S, for each customer classification or grouping." The current definition of the Rd factor is "the weighted average of applicable demand rates to be in effect September 1 corresponding to purchases D." There were some comments that either these factors should be eliminated or the N and Rn factors should be eliminated since interstate pipeline operations had changed since the definitions were adopted. The Board has chosen to retain the D and Rd factor and to delete the N and Rn factors.

Some comments suggested updating the definitions of the D and Rd factors to indicate that interstate pipelines no longer supply gas to vendors and entitlements are no longer available. To reflect these changes, the Board is proposing to amend the definitions of these factors as follows:

D is the total volume of applicable ~~gas or transportation~~  
entitlement reservation purchases required to meet sales, S,  
for each customer classification or grouping.

Rd is the weighted average of applicable ~~demand rates~~  
annual transportation entitlement reservation charges to be  
in effect September 1 corresponding to purchases D.

### **N/Rn factors**

This factor will be deleted as suggested in the comments. The N and Rn factors related to entitlements from interstate pipelines are no longer applicable.

### **Rb Factor**

The current definition of the Rb factor is "the adjusted amount necessary to obtain the anticipated balance for the remaining PGA year calculated by taking the anticipated PGA balance divided by the forecasted volumes for the months of October through August of the PGA year." The Rb factor allows the utility to adjust the PGA factor based upon the anticipated difference between actual costs and the revenues generated by the PGA factor. Under the current definition, the Rb factor is calculated by dividing the anticipated balance by the 11 months from October to August. If the balance is estimated to be positive, then the Rb factor is negative and, if the balance is estimated to be negative, the Rb factor is positive.

The Board is proposing to amend the definition of the Rb factor to allow a utility to decide whether to recover the balance over one or more months remaining in the PGA year. Dividing the anticipated balance by 11 months, as required by the current rule, could create a situation where the balance would not be recovered because of decreasing volumes in summer months. It also increases the possibility that the recovery would be from a different set of customers than those who used the gas. The proposed amendment would allow the utility to propose an appropriate recovery period. This should provide the utility with the flexibility to address any overcollection or undercollection. The utility will be required to provide an explanation of its proposed recovery period.



A question was raised concerning the use by MidAmerican of the last-in-first-out (LIFO) accounting method for storage costs. MidAmerican has obtained two waivers from the Board to allow recovery of the balance between the LIFO method for calculating storage and the method allowed by the rule. MidAmerican suggests that any proposed rule should be flexible enough to allow it to reflect the estimated cost of storage calculated using the LIFO method and allowing MidAmerican to make monthly adjustments for these calculations during the winter heating season.

Consumer Advocate opposed MidAmerican's proposal to treat storage costs using the LIFO method and suggested a different method. MidAmerican and Consumer Advocate have had discussions concerning their differences and both appear to agree that the rule should have enough flexibility for MidAmerican to match the cost of storage with the customers who use the gas during the winter.

There appear to be two alternative amendments that could be made to provide the flexibility that MidAmerican and Consumer Advocate believe is necessary. One amendment would be to the Z factor to allow for monthly changes, rather than the annual change now required. The other amendment would be to the Rb factor, to allow an Rb filing each month to adjust for the difference between the yearly Z factor and the LIFO factor. The Board considers the amendment to the Rb factor to be the more appropriate because it allows for the most flexibility.

**E factor**

The current definition of the E factor is "the per unit overcollection or undercollection adjustment as calculated under subrule 19.10(7)." The Board does not propose any changes to this definition.

**K factor**

Years ago the cost of gas typically included two components: a base cost of gas (K factor) that stayed the same throughout the year and a PGA component that reflected gas cost changes and was added to the base cost. There is no longer a base cost of gas. The PGA reflects all of the gas costs. Therefore, references to the base cost of gas are unnecessary. All parties agreed the K factor should be eliminated.

**Z factor**

The current definition of the Z factor is "the total quantity of applicable storage service purchases required to meet sales, S, for each customer classification or grouping." The current definition of the Rz factor is "the weighted average of applicable storage service rates to be in effect September 1 corresponding to purchases Z."

The Board does not propose any changes to the definitions of the Z factor or Rz factor. The current definition provides sufficient flexibility to accommodate differing pricing methods. MidAmerican raised an issue about the use of the LIFO (last-in-first-out) accounting method for establishing the cost of the Z and Rz factors.

Consumer Advocate initially opposed the use of this method, but after discussions with MidAmerican, many of Consumer Advocate's concerns were addressed.

**Proposed R factor**

MidAmerican suggested the adoption of a new factor R to recover supplier refunds. MidAmerican suggested that refunds should be recovered on an ongoing basis as a factor in the PGA clause. MidAmerican states that the PGA rules provide for two ways to return refunds to customers: (1) immediate return of large amounts and accumulation of smaller amounts and (2) waiting until the annual reconciliation factor is revised to return smaller refunds. Since the PGA changes frequently, it would seem appropriate to discontinue the size distinction and instead provide for refunding whenever the Board approves a refund plan.

IPL and Aquila support the creation of an R factor to return supplier refunds in a timely manner through the PGA clause, rather than waiting until the annual reconciliation.

Under the current rule, a refund that is \$5 or more per average residential customer must be returned to the customer as a bill credit or by check. For refunds that are less than \$5 per average residential customer, the current rule provides that a utility may retain those refunds in a retention account until they reach the \$5 amount for a bill credit or check or until the annual reconciliation. The subrule then requires that the utility shall file specific information about the refund within 30 days of

receipt. The subrule also requires that certain information be filed with the Board, depending on whether the refund will be distributed or retained.

The Board is proposing to increase the threshold for making a refund by bill credit or check from \$5 to \$10. Although the current language concerning retention of a refund is permissive and the utility could arguably propose a refund under the \$5 threshold be refunded through the PGA factor, the Board agrees that under the rule it is not clear that this is allowed. The Board is proposing to amend subrule 19.10(8) to make it clear the utility has the option of filing a refund plan that returns a refund that is under \$10 per average residential customer immediately through the PGA factor or retaining the refund.

Under the current rule, a refund not made by check or bill credit could be made as part of the calculation of the PGA factor. Although the establishment of an R factor would provide a separate calculation for refunds, the Board is not convinced that an R factor is necessary or provides any real benefit in the calculation of the PGA factor. The Board is not proposing to adopt an R factor in this rule making.

### **Proposed H factor**

MidAmerican supported adding an H factor and would support continuing the current procedure of filing the information about the cost of hedging. Aquila did not support a separate H factor. Aquila suggested there are too many questions about what should be included in an H factor related to hedging costs. Consumer Advocate

supported an H factor for hedging and argued that hedging costs should be recovered when gas is actually used.

The Board is not proposing to add an H factor to the PGA calculation. Hedging costs are now included in the C and Rc factors and can be addressed appropriately in those factors. A utility should file information supporting the inclusion of hedging costs with the annual or monthly filing. There does not appear to be a need for a separate factor.

**19.10(1)"a" and "c"**

The Board is proposing an amendment to this paragraph to allow a utility to use actual sales from the 12-month period ending May 31, rather than the current June 30. The participants agreed that under the current rule, a utility would have to file projected heating degree data to calculate sales for June. This amendment will eliminate the need for the filing of the projected data for June.

The Board is proposing to amend paragraph "c" to remove the reference to the N factor.

**19.10(2)**

The Board is proposing an amendment to subrule 19.10(2) to remove the specific references to items that can be included in the annual PGA filing. The utility needs to file the data necessary to support the volumes and factors in the annual filing. By removing the references to specific items, the Board allows the utility the

flexibility to provide the data it considers important to support its filing. Board staff can always ask for additional information if it is needed to complete the review.

The participants suggested the Board amend this subrule to allow a utility to file invoices and supporting data for selected months rather than for the full 12-month period. The Board is not proposing this change to the subrule. Although the filing of 12 months of supporting data is more voluminous, it provides for a more thorough review of the data supporting the PGA factor.

**19.10(3)**

The Board proposes to amend subrule 19.10(3) as follows:

**(3) *Periodic changes to purchased gas adjustment clause.*** Periodic purchased gas adjustment filings shall be based on the purchased gas adjustment customer classifications and groupings previously approved by the board. Changes in the customer classification and grouping on file are not automatic and require prior approval by the board.

Periodic filings shall include all worksheets and detailed supporting data used to determine the amount of the adjustment.

Changes in factors S or C may not be made in periodic purchased gas filings ~~except to recognize changes between pipeline and nonpipeline purchases.~~ A change in factors D, N, or Z may be made in periodic filings and will be deemed approved if it conforms to the annual purchased gas filing or if it conforms to the principles set out in 19.10(5) or 10.10(6).

The utility shall implement automatically all purchased gas adjustment changes which result from changes in Rc, Rd, Rn, or Rz ~~equal to or greater than .5 cents per ccf or therm immediately~~ with concurrent board notification with adequate information to calculate and support the change. ~~Purchased gas adjustment changes of less than .5 cents per ccf or~~

~~therm shall be required with concurrent board notification if the last purchased gas adjustment change occurred 30 days or more prior to the change.~~ The purchased gas adjustment shall be calculated separately for each customer classification or grouping.

Unless otherwise ordered by the board, a rate-regulated utility's purchased gas adjustment rate factors shall be adjusted as purchased gas costs change and shall recover from the customers only the actual costs of purchased gas and other currently incurred charges associated with the delivery, inventory or reservation of natural gas. Such periodic changes shall become effective with usage on or after the date of change.

~~If a supplier's entitlement charge is zero, the same percentage of current demand charges shall be allocated to each customer class or grouping as the average demand charges allocated during the last 12-month period for which entitlement rates were not zero. "Current demand charges" means the amount  $(D \times R_d)$  used in computing the formula set out in 19.10(1).~~

The proposed amendments remove the references to pipeline purchases and entitlements that are outdated. The proposed amendments remove reference to the  $R_n$  factor that is proposed to be deleted. The proposed amendments remove the distinction between PGA changes greater than 0.5 cents and less than 0.5 cents. All PGA changes will be required to be implemented with proper notification and support.

#### **19.10(4)**

The Board is proposing to amend subrule 19.10(4) to remove the reference to the "1993-1994 PGA year." The Board is also proposing to remove the limitation of the threshold of one-half of 1 percent for filing an  $R_b$  factor and to make the language in this subrule consistent with the proposed definition of the  $R_b$  factor discussed

above. This change will reflect the same flexibility as the proposed changes to the definition in subrule 19.10(1).

**19.10(5)**

This subrule was rescinded effective December 17, 2003. MidAmerican proposed a new subrule that allows the utility to apply interest to both cumulative overcollections and undercollections of gas costs. Under the current rules, interest is only applied to overcollections.

The Board has not proposed an amendment to these rules to allow a utility to collect interest on undercollections. The Board is proposing amendments that allow a utility more flexibility in establishing the PGA factor and removing any undercollections through the Rb factor. If the Board allowed interest on any undercollections, it would remove some of the incentive for a utility to ensure that the PGA factor reflects actual costs as closely as possible.

**19.10(6)**

IPL suggested that this paragraph should be amended by changing "obligations to pipelines or other gas supplies" to "obligations for pipeline capacity serving."

The Board is proposing to amend the subrule as suggested by IPL.

**19.10(7)**

This subrule requires that if an overbilling from the reconciliation exceeds 3 percent of the annual cost of purchased gas subject to recovery for a specific



classification or grouping, the utility shall refund the overbilling by bill credit or check for the time period beginning November 1 of the current year to the date of refunding. The subrule also requires that if the overbilling does not exceed 3 percent, the utility may refund by bill credit or check or as part of the PGA factor through the ten-month period beginning November 1. The subrule also states that the minimum amount to be refunded by check should be \$10.

The Board is proposing to amend subrule 19.10(7) as follows:

**(7) *Reconciliation of underbillings and overbillings.*** The utility shall file with the board on or before October 1 of each year a purchased gas adjustment reconciliation for the 12-month period which began on September 1 of the previous year. This reconciliation shall be the actual net invoiced costs of purchased gas and the costs of appropriate financial hedging tools less the actual revenue billed through its purchased gas adjustment clause net of the prior year's reconciliation dollars for each customer classification or grouping. Actual net costs for purchased gas shall be the applicable invoice costs from all appropriate sources associated with the time period of usage.

Negative differences in the reconciliation shall be considered overbilling by the utility and positive differences shall be considered underbilling. This reconciliation shall be filed with all worksheets and detailed supporting data for each particular purchased gas adjustment clause. Penalty purchases shall only be includable where the utility clearly demonstrates a net savings.

~~The take-or-pay reconciliation shall be the actual net invoiced costs of take-or-pay less the actual revenue billed through its take-or-pay factors for each customer class or grouping. Actual net costs for take-or-pay shall be the applicable invoice costs from all appropriate sources associated with the time period of usage.~~

a. Any underbilling determined from the reconciliation shall be collected through ten-month adjustments to the appropriate purchased gas adjustment. The underbilling generated from each purchased gas adjustment clause shall be divided by the anticipated sales volumes for the prospective ten-month period beginning November 1 (based upon the sales determination in subrule 19.10(1)).

The quotient, determined on the same basis as the utility's tariff rates, shall be added to the purchased gas adjustment for the prospective ten-month period beginning November 1.

~~Any underbillings determined from the take-or-pay reconciliation shall be collected through ten-month adjustments to appropriate take-or-pay adjustment. The underbilling shall be divided by the anticipated sales volumes or transport volumes for the prospective ten-month period beginning November 1 (based upon the volumes determined in subrule 19.10(5)).~~

~~The quotient, determined on the same basis as the utility's tariff rates, shall be added to the take-or-pay factor for the prospective ten-month period beginning November 1.~~

b. Any overbilling determined from the reconciliation shall be refunded to the customer classification or PGA grouping from which it was generated. The overbilling shall be divided by the annual cost of purchased gas subject to recovery for the 12-month period which began the prior September 1 for each purchased gas adjustment clause and applied as follows:

(1) If the net overbilling from the purchased gas adjustment reconciliation exceeds 3 percent of the annual cost of purchased gas subject to recovery for a specific customer classification or PGA grouping, the utility shall refund the overbilling by bill credit or check ~~for the time period beginning starting on the first day of billing in the~~ November 4 bill month of the current year to the date of refunding. The minimum amount to be refunded by check shall be \$10. Interest shall be calculated on amounts exceeding 3 percent from the PGA year midpoint to the date of refunding. The

interest shall be the dealer commercial paper rate (90-day, high grade unsecured notes) quoted in the "Money Rates" section of the Wall Street Journal on the last working day of August of the current year.

(2) If the net overbilling from the purchased gas adjustment reconciliation does not exceed 3 percent of the annual cost of purchased gas subject to recovery for a specific customer classification or PGA grouping, the utility may refund the overbilling by bill credit or check ~~for the time period beginning~~ starting the first day of the billing in the November 4 bill month of the current year ~~to the date of refunding~~, or the utility may refund the overbilling through ten-month adjustments to the particular purchased gas adjustment from which they were generated. The minimum amount to be refunded by check shall be \$10. This adjustment shall be determined by dividing the overcollection by the anticipated sales volume for the prospective ten-month period beginning November 1 as determined on the same basis as the utility's tariff rates, shall be a reduction to that particular purchased gas adjustment for the prospective ten-month period beginning November 1.

~~c. Any overbilling determined from the reconciliation of a TPA shall be refunded to the customer classification or TPA grouping from which it was generated. The 3 percent refund rule described in subparagraphs 19.10(7)"b"(1) and (2) shall also apply to the take-or-pay reconciliation. The overbilling shall be divided by the anticipated sales volumes or transport volumes for the prospective ten-month period beginning November 1 (based upon the volumes determined in subrule 19.10(5)). The quotient, determined on the same basis as the utility's tariff rates, shall be a reduction to that particular take-or-pay adjustment for the prospective ten-month period beginning November 1.~~

~~d. If the 3 percent refund rule described in subparagraph 19.10(7)"b"(1) requires an immediate refund for either the PGA or the TPA the reconciliation results of the two adjustments may be netted. The volumes involved with the PGA and TPA must be the same. The 3 percent refund rule described in subparagraphs 19.10(7)"b"(1) and (2) shall also~~

~~apply to the netted PGA and TPA reconciliation results. The quotient, determined on the same basis as the utility's tariff rates, shall be a reduction to that particular netted purchased gas adjustment and take-or-pay adjustment for the prospective ten-month period beginning November 1.~~

ec. When a customer has reduced or terminated supply service and is receiving transportation service, any liability for overcollections and undercollections shall be determined in accordance with the utility's gas transportation tariff.

The proposed amendments remove references to take-or-pay costs that are no longer applicable. The proposed amendments add a reference to hedging tools so it is clear the costs of these tools can be collected through the PGA and changes the language to more accurately reflect when any reconciliation adjustment will be flowed through to customers.

**19.10(8)**

The Board proposes to amend subrule 19.10(8) as follows:

**(8)** *Refunds from gas suppliers.* The utility shall file a refund plan with the board within 30 days of the receipt of any refund received from suppliers.

a. The utility shall refund to customers by bill credit or check an amount equal to any refund ~~received from a supplier~~, plus accrued interest, if the refund exceeds \$5 10 per average residential customer under the applicable PGA clause. The utility may retain undistributed refund amounts in special refund retention accounts for each customer classification or grouping under the applicable PGA clause until such time as additional refund obligations or interest cause the average residential customer refund to exceed \$5 10. Any obligations remaining in the retention accounts on September 1 shall become a part of the annual PGA reconciliation.

~~b. Within 30 days of receipt of a refund from a supplier, the~~  
The utility shall file with the refund plan board the following information:

- (1) A statement of reason for the refund.
- (2) The amount of the refund with support for the amount.
- (3) The balance of the appropriate refund retention accounts.
- (4) The amount due under each purchased gas adjustment clause.

~~b. If the supplier refund will result in a refund distribution, the utility shall also file within 30 days:~~

- (15) The intended period of the refund distribution.
- (26) The estimated interest accrued for each supplier refund through the proposed refund period, with complete interest calculations and supporting data as determined in 19.10(8)"e."
- (37) The total amount to be refunded, the amount to be refunded per customer classification or ~~PGA~~ grouping, and the refund per ccf or therm.

~~c. Within 30 days of receipt of a refund from a supplier which will result in a refund retention, the utility shall also file with the board for its approval a refund retention report which shall include the following information:~~

- (18) The estimated interest accrued for each refund received and for each amount in the refund retention accounts through the date of the filing with the complete interest calculation and support as determined in paragraph 19.10(8)"e."
- (29) The total amount to be retained, the amount to be retained per customer classification class or ~~PGA~~ grouping, and the level per ccf or therm.

(~~3~~10) The calculations demonstrating the retained balance is less than \$~~5~~ 10 per average residential customer with supporting schedules for all factors used.

~~d~~c. The refund to each customer shall be determined by dividing the amount in the appropriate refund retention account, including interest, by the total ccf or therm of system gas consumed by affected customers during the period for which the refundable amounts are applicable and multiplying the quotient by the ccf or therms of system supply gas actually consumed by the customer during the appropriate period. The utility may use the last available 12-month period if the use of the actual period generating the refund is impractical. The utility shall file complete support documentation for all figures used.

~~e~~d. The interest rate on refunds distributed under this subrule, compounded annually, shall be the dealer commercial paper rate (90-day, high grade unsecured notes) quoted in the "Money Rates" section of the Wall Street Journal on the day the refund obligation vests. Interest shall accrue from the date the rate-regulated utility receives the refund or billing from the supplier or the midpoint of the first month of overcollection to the date the refund is distributed to customers.

~~f~~e. The rate-regulated utility shall make a reasonable effort to forward refunds, by check, to eligible recipients who are no longer customers.

~~g~~f. The minimum amount to be refunded by check shall be \$~~4~~ 5.

This rule requires utilities to refund to customers by bill credit or check amounts received from suppliers plus interest if the refund exceeds \$5 per average residential customer. If the refund does not equal \$5 per average residential customer, the refund may be incorporated into the annual reconciliation. It also states that the minimum amount to be refunded by check is \$1.

The Board is proposing to amend this subrule to make it clear that the utility must file a refund plan for Board approval. The proposed amendments then provide a list of information that the utility should file with the plan. The proposed amendments increase the average refund amount to \$10 per customer for a bill credit or check and then provide the utility the flexibility to either retain refunds that are less than \$10 or return the refund through the PGA factor.

#### **19.16 Reserve margin**

This rule currently allows utilities to purchase capacity above their highest seven-year historical peak and recover the costs of the excess capacity from customers. It is intended to provide a safe harbor for prudent capacity planning. The Board is proposing to amend subrule 19.16(1) to remove the reference to historic peaks and to allow a utility to maintain a reserve margin based upon forecasted peaks.

The Board is proposing to amend subrule 19.16(2) by changing the definitions of paragraphs "a," "b," and "c." The proposed amendments to paragraphs "a" and "b" are based upon language suggested by MidAmerican. The proposed amendment to paragraph "c" is based upon language suggested by Consumer Advocate. The proposed paragraphs update the references to be consistent with how gas is purchased in the current market and to allow the utilities to forecast their peak day needs. The method of forecasting the design day peak is then to be filed with the Board for review and approval.

Under the current provisions of subrule 19.16(3), a utility is allowed a reserve margin of 9 percent or less if the contract-demand level is less than 25,000 Mcf per day. The Board is proposing to update the language in this subrule to be consistent with the proposed amendments to the definitions and to reduce the reserve margin allowed from 9 percent to 6 percent. The Board is proposing to reduce the reserve margin since the utilities may now use forecasted volumes, which they suggest provide more accurate estimates of peak day needs.

The Board is proposing to amend subrule 19.16(4) for a utility with a contract demand level of 25,000 Mcf or greater, to update the language consistent with the proposed definitions, and to reduce the allowable reserve margin from 5 percent to 3 percent. As stated above, utilities are now allowed to use forecasted peak day volumes, which they suggest are more accurate.

The Board is proposing to retain the rebuttable presumption for reserve margins that come within the allowances established in subrules 19.19(3) and (4). The Board is proposing to update this language to be consistent with the proposed language in the other provisions of this rule.

The proposed amendments to rule 19.16 are as follows:

**19.16(1) *Applicability.*** All rate-regulated gas utility companies may maintain a reserve of natural gas contract services in excess of their historic peak maximum daily system demand requirement and recover the cost of the reserve from their customers through the purchased gas adjustment.

**19.16(2) *Definitions.***



a. ~~Gas available to meet demand~~ Contract services. All The amount of firm gas delivery capacity or delivery services contracted for use by a utility to satisfy its maximum daily system demand requirement, excluding delivery capacity of liquefied natural gas and propane storage facilities, shall be considered as gas available to meet demands contract services.

b. ~~Contract demand~~. The amount of firm gas a utility is entitled to take on a daily basis, pursuant to contract.

cb. ~~Base period~~ Maximum daily system demand level requirements. The maximum peak of the previous seven heating seasons (12-month period ending June 30) shall form the base period demand to establish a utility's maximum peak demand daily gas demand requirement that the utility forecasts to occur on behalf of its system firm sales customers under peak (design day) weather conditions.

c. Design day. The maximum heating season forecast level of all firm sales customers' gas requirements during a 24-hour period beginning at 9:00 a.m. The design day forecast shall be the combined estimated gas requirements of all firm sales customers calculated by totaling the gas requirements of each customer classification or grouping. The estimated gas requirements for each customer classification or grouping shall be determined based upon an evaluation of historic usage levels of customers in each customer classification or grouping adjusted for reasonably anticipated colder than normal weather conditions and any other clearly identifiable factors that may contribute to the demand for gas by firm customers. The design day calculation shall be submitted for approval by the board with the annual PGA filing required by subrule 19.10(2).

**19.16(3)** ~~Contract~~ Maximum daily system demand level requirements of less than 25,000 McfDth per day. A reserve margin of 96 percent or less in excess of the base period maximum daily system demand requirement will be presumed reasonable.

**19.16(4)** ~~Contract~~ Maximum daily system demand requirements of more than 25, 000 McfDTh per day. A reserve margin of ~~53~~ percent or less in excess of the ~~base-period~~ maximum daily system demand requirements will be presumed reasonable.

**19.16(5)** *Rebuttable presumption.* All ~~gas available to meet demand~~ contract services in excess of an amount needed to meet the ~~base-period~~ maximum daily system demand requirement plus the reserve is presumed to be unjust and unreasonable unless a factual showing to the contrary is made during the periodic review of gas proceeding. All ~~gas available to meet demand~~ contract services less than an amount of ~~base-period~~ the maximum daily system demand requirement plus the reserve is presumed to be just and reasonable unless a factual showing to the contrary can be made during the periodic review of gas proceeding.

**19.16(6)** *Allocation of cost of the reserve.* Fifty percent of the reserve cost shall be collected as a demand charge allocation to noncontractual firm customers. The remaining 50 percent shall be collected as a throughput charge on customers excluding transportation customers who have elected no system supply reserve.

**IT IS THEREFORE ORDERED:**

1. A rule making proceeding identified as Docket No. RMU-04-3 is commenced for the purpose of receiving comments on the proposed amendments in the notice attached hereto and incorporated herein by reference in this order.

2. The Executive Secretary is directed to submit for publication in the Iowa Administrative Bulletin a notice in the form attached to and incorporated by reference in this order.

**UTILITIES BOARD**

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper  
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 21<sup>st</sup> day of May, 2004.

## **UTILITIES DIVISION [199]**

### **Notice of Intended Action**

Pursuant to Iowa Code sections 476.1, 476.2, 476.4, 476.6, and 17A.4, the Utilities Board (Board) gives notice that on May 21, 2004, the Board issued an order in Docket No. RMU-04-3, In re: Revisions to Purchased Gas Adjustment and Reserve Margin Rules [199 IAC 19.10 and 19.16], "Order Commencing Rule Making." The proposed amendments are based upon a review of the Board's purchased gas adjustment and reserve margin rules from Docket No. NOI-03-1, In re: Review of Purchased Gas Adjustment Rules. The order commencing rule making contains a discussion of the background and reasons for this proposed rule making. The order is available on the Board's Web site at [www.state.ia.us/iub](http://www.state.ia.us/iub).

Pursuant to Iowa Code sections 17A.4(1)"a" and "b," any interested person may file a written statement of position pertaining to the proposed amendments. The statement must be filed on or before June 29, 2004, by filing an original and ten copies in a form substantially complying with 199 IAC 2.2(2). All written statements should clearly state the author's name and address and should make specific reference to this docket. All communications should be directed to the Executive Secretary, Utilities Board, 350 Maple Street, Des Moines, Iowa 50319-0069.

A public hearing to receive oral comments on the proposed amendments will be held at 9 a.m. on July 6, 2004, in the Board's hearing room at the address listed above. Persons with disabilities requiring assistive services or devices to observe or

participate should contact the Utilities Board at (515)281-5256 in advance of the scheduled date to request that appropriate arrangements be made.

These amendments are intended to implement Iowa Code sections 476.1, 476.2, 476.4, 476.6, and 17A.4.

The following amendments are proposed.

Item 1. Amend subrule 19.10(1) as follows:

(1) Purchased gas adjustment clause. Purchased gas adjustment shall be computed separately for each customer classification or grouping previously approved by the board. Purchased gas adjustments shall use the same unit of measure as the utility's tariffed rates. Purchased gas adjustments shall be calculated using factors filed in annual or periodic filings according to the following formula:

$$PGA = \frac{(CxRc) + (DxRd) + (NxRn) + (ZxRz)}{S} + Rb + E - K$$

PGA is the purchased gas adjustment per unit.

S is the anticipated yearly gas commodity sales volume for each customer classification or grouping.

C is the volume of applicable commodity purchased or transported for each customer classification or grouping required to meet sales, S, plus the expected lost and unaccounted for volumes.

Rc is the weighted average of applicable commodity prices or rates, including appropriate hedging tools costs, to be in effect September 1 corresponding to purchases C.

D is the total volume of applicable ~~gas or transportation~~ entitlement reservation purchases required to meet sales, S, for each customer classification or grouping.

Rd is the weighted average of applicable ~~demand rates~~ entitlement reservation charges to be in effect September 1 corresponding to purchases D.

~~N is the total quantity of applicable annual entitlement to meet sales, S, for each customer classification or grouping.~~

~~Rn is the weighted average of applicable entitlement rates to be in effect September 1 corresponding to annual entitlement quantity N.~~

Z is the total quantity of applicable storage service purchases required to meet sales, S, for each customer classification or grouping.

Rz is the weighted average of applicable storage service rates to be in effect September 1 corresponding to purchases Z.

Rb is the adjusted amount necessary to obtain the anticipated balance for the remaining PGA year calculated by taking the anticipated PGA balance divided by the forecasted volumes, including storage, for one or more months ~~the months of October through August of the remaining~~ PGA year.

E is the per unit overcollection or undercollection adjustment as calculated under subrule 19.10(7).

~~K is the base cost of gas as set forth in the utility's tariff.~~

The components of the formula shall be determined as follows for each customer classification or grouping:

a. The actual sales volumes S for the prior 12-month period ending May 31 ~~June 30~~, with the necessary degree-day adjustments and further adjustments approved by the board.

b. The annual expected lost and unaccounted for factors shall be those from the current annual IG-1 filing, ~~shall be calculated by determining the actual difference between sales and purchases for the prior PGA year~~ but in no case will this factor be less than 0.

c. The purchases C, D, ~~N~~ and Z will be necessary to meet the requirements as determined in 19.10(1).

d. The purchased gas adjustments shall be adjusted prospectively to reflect the final decision issued by the board in a periodic review proceeding.

Item 2. Amend subrule **19.10(2)** as follows:

(2) Annual purchased gas adjustment filing. Each rate-regulated utility shall file on or before August 1 of each year, for the board's approval, a purchased gas adjustment for the 12-month period beginning September 1 of that year.

The annual filing shall restate each factor of the formula stated in subrule 19.10(1).

The annual filing shall be based on customer classifications and groupings previously approved by the board unless new classifications or groupings are proposed.

The annual filing shall include all worksheets and detailed supporting data used to determine the purchased gas adjustment volumes and factors ~~including sales and purchase data from bills, invoices, internal reports and supplier and customer~~

contracts. The utility shall provide an explanation of the calculations of each factor.  
Information already on file with the board may be incorporated by reference in the filing.

The annual filing shall include the following information concerning the hedging tools used by the utility:

- (1) The type and volume of physical gas being hedged.
- (2) The reason the hedge was undertaken (e.g., to hedge storage gas, a floating price contract, etc.).
- (3) A detailed explanation of the hedging strategy (e.g., costless collar, straddled costless collar, purchasing or selling options, etc.).
- (4) The date the futures contract or option was purchased or the swap was entered into.
- (5) The spot price of gas at the time the hedge was made, including an explanation of how the spot price was determined including the index or indices used.
- (6) The amount of all commissions paid and to whom those payments were made.
- (7) All administrative costs associated with the hedge.
- (8) The name(s) of all marketers used and the amount of money paid to each marketer.
- (9) The amount of savings or costs resulting from the hedge.
- (10) The amount of money tied up in margin accounts for futures trading and the cost of that money.



(11) The premium paid for each option.

(12) The strike price of each option.

(13) The contracting costs for each swap transaction.

(14) The name of the fixed-price payer in a swap transaction.

(15) A statement as to how the hedge is consistent with the LDC's natural gas procurement plan.

(16) An explanation as to why the LDC believes the hedge was in the best interest of general system customers.

(17) All invoices, workpapers, and internal reports associated with the hedge.

Item 3. Amend subrule **19.10(3)** as follows:

(3) Periodic changes to purchased gas adjustment clause. Periodic purchased gas adjustment filings shall be based on the purchased gas adjustment customer classifications and groupings previously approved by the board. Changes in the customer classification and grouping on file are not automatic and require prior approval by the board.

Periodic filings shall include all worksheets and detailed supporting data used to determine the amount of the adjustment.

Changes in factors S or C may not be made in periodic purchased gas filings ~~except to recognize changes between pipeline and nonpipeline purchases.~~ A change in factors D, ~~N~~, or Z may be made in periodic filings and will be deemed approved if it conforms to the annual purchased gas filing or if it conforms to the principles set out in ~~19.10(5) or 19.10(6).~~

The utility shall implement automatically all purchased gas adjustment changes, which result from changes in  $R_c$ ,  $R_d$ ,  $R_n$ , or  $R_z$  equal to or greater than .5 cents per ccf or therm immediately with concurrent board notification with adequate information to calculate and support the change. ~~Purchased gas adjustment changes of less than .5 cents per ccf or therm shall be required with concurrent board notification if the last purchased gas adjustment change occurred 30 days or more prior to the change.~~ The purchased gas adjustment shall be calculated separately for each customer classification or grouping.

Unless otherwise ordered by the board, a rate-regulated utility's purchased gas adjustment rate factors shall be adjusted as purchased gas costs change and shall recover from customers only the actual costs of purchased gas and other currently incurred charges associated with the delivery, inventory, or reservation of natural gas. Such periodic changes shall become effective with usage on or after the date of change.

~~If a supplier's entitlement charge is zero, the same percentage of current demand charges shall be allocated to each customer class or grouping as the average demand charges allocated during the last 12-month period for which entitlement rates were not zero. "Current demand charges" means the amount  $(D \times R_d)$  used in computing the formula set out in 19.10(1).~~

Item 4. Amend subrule **19.10(4)** as follows:

(4) *Factor R<sub>b</sub>*. ~~Starting with the 1993-1994 PGA year, Each utility each company~~ has the option of filing an  $R_b$  calculation with its October-January filings but ~~will be required to~~ shall file an  $R_b$  calculation with its February filing and

subsequent monthly filings in the PGA year. ~~If anticipated revenues exceed or fall short of anticipated costs by more than one-half of one percent, the PGA adjustment necessary to obtain the anticipated balance shall constitute the amount to be reflected as factor Rb in the PGA calculation. The adjustment shall be for services rendered in the remaining months of the same PGA year unless a subsequent determination under this paragraph requires a change.~~ If the anticipated PGA balance represents costs in excess of revenues, factor Rb shall be assigned a positive value; if the anticipated balance represents revenues in excess of costs, factor Rb shall be assigned a negative value.

Item 5. Amend subrule **19.10(6)** as follows:

(6) Allocations of changes in contract ~~demand~~ pipeline transportation capacity obligations. Any change in contractual ~~demand~~ pipeline transportation capacity obligations to transportation or storage service providers ~~to pipeline or other gas suppliers~~ serving Iowa must be reported to the board within 30 days of receipt. The change must be applied on a pro-rata basis to all customer classifications or groupings, unless another method has been approved by the board. Where a change has been granted as a result of the utility's request based on the needs of specified customers, that change may be allocated to specified customers. Where the board has approved anticipated sales levels for one or more customer classifications or groupings, those levels may limit the pro-rata reduction for those classifications or groupings.

Item 6. Amend subrule **19.10(7)** as follows:

(7) Reconciliation of underbillings and overbillings. The utility shall file with the board on or before October 1 of each year a purchased gas adjustment reconciliation for the 12-month period, which began on September 1 of the previous year. This reconciliation shall be the actual net invoiced costs of purchased gas and appropriate financial hedging tools costs less the actual revenue billed through its purchased gas adjustment clause net of the prior year's reconciliation dollars for each customer classification or grouping. Actual net costs for purchased gas shall be the applicable invoice costs from all appropriate sources associated with the time period of usage.

Negative differences in the reconciliation shall be considered overbilling by the utility and positive differences shall be considered underbilling. This reconciliation shall be filed with all worksheets and detailed supporting data for each particular purchased gas adjustment clause. Penalty purchases shall only be includable where the utility clearly demonstrates a net savings.

~~The take-or-pay reconciliation shall be the actual net invoiced costs of take-or-pay less the actual revenue billed through its take-or-pay factors for each customer class or grouping. Actual net costs for take-or-pay shall be the applicable invoice costs from all appropriate sources associated with the time period of usage.~~

a. Any underbilling determined from the reconciliation shall be collected through ten-month adjustments to the appropriate purchased gas adjustment. The underbilling generated from each purchased gas adjustment clause shall be divided by the anticipated sales volumes for the prospective ten-month period beginning November 1 (based upon the sales determination in subrule 19.10(1)).

The quotient, determined on the same basis as the utility's tariff rates, shall be added to the purchased gas adjustment for the prospective ten-month period beginning November 1.

~~Any underbillings determined from the take-or-pay reconciliation shall be collected through ten-month adjustments to appropriate take-or-pay adjustment. The underbilling shall be divided by the anticipated sales volumes or transport volumes for the prospective ten-month period beginning November 1 (based upon the volumes determined in subrule 19.10(5)).~~

~~The quotient, determined on the same basis as the utility's tariff rates, shall be added to the take-or-pay factor for the prospective ten-month period beginning November 1.~~

b. Any overbilling determined from the reconciliation shall be refunded to the customer classification or PGA grouping from which it was generated. The overbilling shall be divided by the annual cost of purchased gas subject to recovery for the 12-month period which began the prior September 1 for each purchased gas adjustment clause and applied as follows:

(1) If the net overbilling from the purchased gas adjustment reconciliation exceeds 3 percent of the annual cost of purchased gas subject to recovery for a specific customer classification or PGA grouping, the utility shall refund the overbilling by bill credit or check ~~for the time period beginning~~ during the November 1 billing cycle of the current year ~~to the date of refunding~~. The minimum amount to be refunded by check shall be \$10. Interest shall be calculated on amounts exceeding 3 percent from the PGA year midpoint to the date of refunding. The

interest rate shall be the dealer commercial paper rate (90-day, high grade unsecured notes) quoted in the "Money Rates" section of the Wall Street Journal on the last working day of August of the current year.

(2) If the net overbilling from the purchased gas adjustment reconciliation does not exceed 3 percent of the annual cost of purchased gas subject to recovery for a specific customer classification or PGA grouping, the utility may refund the overbilling by bill credit or check ~~for the time period beginning~~ during the November 4 billing cycle of the current year ~~to the date of refunding~~, or the utility may refund the overbilling through ten-month adjustments to the particular purchased gas adjustment from which they were generated. The minimum amount to be refunded by check shall be \$10. This adjustment shall be determined by dividing the overcollection by the anticipated sales volume for the prospective ten-month period beginning November 1 as determined on the same basis as the utility's tariff rates, shall be a reduction to that particular purchased gas adjustment for the prospective ten-month period beginning November 1.

~~c. Any overbilling determined from the reconciliation of a TPA shall be refunded to the customer classification or TPA grouping from which it was generated. The 3 percent refund rule described in subparagraphs 19.10(7)"b"(1) and (2) shall also apply to the take-or-pay reconciliation. The overbilling shall be divided by the anticipated sales volumes or transport volumes for the prospective ten-month period beginning November 1 (based upon the volumes determined in subrule 19.10(5)). The quotient, determined on the same basis as the utility's tariff rates, shall be a~~

~~reduction to that particular take-or-pay adjustment for the prospective ten-month period beginning November 1.~~

~~d. If the 3 percent refund rule described in subparagraph 10.10(7)"b"(1) requires an immediate refund for either the PGA or the TPA the reconciliation results of the two adjustments may be netted. The volumes involved with the PGA and TPA must be the same. The 3 percent refund rule described in subparagraphs 19.10(7)"b"(1) and (2) shall also apply to the netted PGA and TPA reconciliation results. The quotient, determined on the same basis as the utility's tariff rates, shall be a reduction to that particular netted purchased gas adjustment and take-or-pay adjustment for the prospective ten-month period beginning November 1.~~

ec. When a customer has reduced or terminated supply service and is receiving transportation service, any liability for overcollections and undercollections shall be determined in accordance with the utility's gas transportation tariff.

Item 7. Amend subrule **19.10(8)** as follows:

(8) *Refunds from gas suppliers related to gas costs charged through the PGA.*

The utility shall file a refund plan with the board within 30 days of the receipt of any refund related to gas costs charged through the PGA.

a. The utility shall refund to customers by bill credit or check an amount equal to any refund ~~received from a supplier~~, plus accrued interest, if the refund exceeds \$510 per average residential customer under the applicable PGA clause customer classification or grouping. The utility may refund lesser amounts through the applicable customer classification or grouping or retain undistributed refund amounts in special refund retention accounts for each customer classification or

grouping under the applicable PGA clause until such time as additional refund obligations or interest cause the average residential customer refund to exceed \$510. Any obligations remaining in the retention accounts on September 1 shall become a part of the annual PGA reconciliation.

b. ~~Within 30 days of receipt of a refund from a supplier, the~~ The utility shall file with the refund plan board the following information:

- (1) A statement of reason for the refund.
- (2) The amount of the refund with support for the amount.
- (3) The balance of the appropriate refund retention accounts.
- (4) The amount due under each customer classification or grouping ~~purchased gas adjustment clause.~~

b. ~~If the supplier refund will result in a refund distribution, the utility shall also file within 30 days:~~

- ~~(15)~~ The intended period of the refund distribution.
- ~~(26)~~ The estimated interest accrued for each ~~supplier~~ refund through the proposed refund period, with complete interest calculations and supporting data as determined in 19.10(8)"e."
- ~~(37)~~ The total amount to be refunded, the amount to be refunded per customer classification or ~~PGA~~ grouping, and the refund per ccf or therm.

c. ~~Within 30 days of receipt of a refund from a supplier which will result in a refund retention, the utility shall also file with the board for its approval a refund retention report which shall include the following information:~~



(~~4~~8) The estimated interest accrued for each refund received and for each amount in the refund retention accounts through the date of the filing with the complete interest calculation and support as determined in paragraph 19.10(8)"e."

(~~2~~9) The total amount to be retained, the amount to be retained per customer classification ~~class~~ or ~~PGA~~ grouping, and the level per ccf or therm.

(~~3~~10) The calculations demonstrating the retained balance is less than \$~~5~~10 per average residential customer with supporting schedules for all factors used.

~~d~~c. The refund to each customer shall be determined by dividing the amount in the appropriate refund retention account, including interest, by the total ccf or therm of system gas consumed by affected customers during the period for which the refundable amounts are applicable and multiplying the quotient by the ccf or therms of system supply gas actually consumed by the customer during the appropriate period. The utility may use the last available 12-month period if the use of the actual period generating the refund is impractical. The utility shall file complete support documentation for all figures used.

~~e~~d. The interest rate on refunds distributed under this subrule, compounded annually, shall be the dealer commercial paper rate (90-day, high grade unsecured notes) quoted in the "Money Rates" section of the Wall Street Journal on the day the refund obligation vests. Interest shall accrue from the date the rate-regulated utility receives the refund or billing from the supplier or the midpoint of the first month of overcollection to the date the refund is distributed to customers.

~~f~~e. The rate-regulated utility shall make a reasonable effort to forward refunds, by check, to eligible recipients who are no longer customers.

gf. The minimum amount to be refunded by check shall be \$15.

This rule is intended to implement Iowa Code section 476.6(11).

Item 8. Amend rule **199 IAC 19.16(476)** as follows:

**199 IAC 19.16(476) Reserve margin**

**19.16(1) Applicability.** All rate-regulated gas utility companies may maintain a reserve of ~~natural gas~~ contract services in excess of their ~~historic peak~~ maximum daily system demand requirement and recover the cost of the reserve from their customers through the purchased gas adjustment.

**19.16(2) Definitions.**

a. ~~Gas available to meet demand~~ Contract services. All The amount of firm gas delivery capacity or delivery services contracted for use by a utility to satisfy its maximum daily system demand requirement, excluding delivery capacity of ~~liquefied natural gas and propane storage facilities~~, shall be considered as ~~gas available to meet demands~~ contract services.

b. ~~Contract demand~~. The amount of firm gas a utility is entitled to take on a daily basis, pursuant to contract.

eb. ~~Base period~~ Maximum daily system demand level requirements. The maximum peak of the previous seven heating seasons (12-month period ending June 30) shall form the base period demand to establish a utility's maximum peak demand daily gas demand requirement that the utility forecasts to occur on behalf of its system firm sales customers under peak (design day) weather conditions.

c. Design day. The maximum heating season forecast level of all firm sales customers' gas requirements during a 24-hour period beginning at 9:00 a.m. The

design day forecast shall be the combined estimated gas requirements of all firm sales customers calculated by totaling the gas requirements of each customer classification or grouping. The estimated gas requirements for each customer classification or grouping shall be determined based upon an evaluation of historic usage levels of customers in each customer classification or grouping adjusted for reasonably anticipated colder than normal weather conditions and any other clearly identifiable factors that may contribute to the demand for gas by firm customers. The design day calculation shall be submitted for approval by the board with the annual PGA filing required by subrule 19.10(2).

**19.16(3)** ~~Contract~~ Maximum daily system demand level requirements of less than 25,000 McfDth per day. A reserve margin of 96 percent or less in excess of the ~~base period~~ maximum daily system demand requirement will be presume reasonable.

**19.16(4)** ~~Contract~~ Maximum daily system demand requirements of more than 25, 000 McfDTh per day. A reserve margin of 53 percent or less in excess of the ~~base period~~ maximum daily system demand requirements will be presumed reasonable.

**19.16(5)** *Rebuttable presumption.* All ~~gas available to meet demand~~ contract services in excess of an amount needed to meet the ~~base period~~ maximum daily system demand requirement plus the reserve is presumed to be unjust and unreasonable unless a factual showing to the contrary is made during the periodic review of gas proceeding. All ~~gas available to meet demand~~ contract services less than an amount of ~~base period~~ the maximum daily system demand requirement plus

the reserve is presumed to be just and reasonable unless a factual showing to the contrary can be made during the periodic review of gas proceeding.

**19.16(6)** No change.

May 21, 2004

/s/ Diane Munns

Diane Munns  
Chairman